

**Wai'ola O Molokai
Molokai Public Utilities Inc
Mosco Inc
745 Fort St #600
Honolulu, HI 96813**

PUBLIC UTILITIES
COMMISSION

2008 JUN 23 P 3:45

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June 23, 2008

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, Room 103
Honolulu, HI 96813
Attention: Stacey Kawasaki Djou, Esq.
Ms. Karen Higashi

Re: In the Matter of Molokai Public Utilities, Inc. ("MPUI"), MOSCO, Inc.
("MOSCO") and Wai'ola O Moloka'i, Inc. ("Wai'ola")

Dear Commissioners and Staff,

Attached please find the information you requested in your letter of June 13, 2008.
Specific responses to the questions contained in that letter are set forth below:

1. MPU/Waiola/Mosco Transition Plan: The utilities have not developed a transition plan as the County of Maui has not taken any action or begun discussions with the utilities to take over ownership and operation of the systems. We have not received any type of firm offer from any private entity to purchase the utility companies. Absent some method of obtaining a subsidy or rate adjustment sufficient to cover all expenses on an ongoing basis, we will have no choice but to terminate service on August 31, 2008.
2. Financial requirements of the three utilities, impact on ratepayers and rates required to ensure continued provision of utility services: Detailed information on the costs of operating the three utilities including operating expenses and revenues are attached. As set forth in those documents, taking into account

operating expenses and income, and assuming Mosco operates as a completely separate entity, to break even the following rates would be required based on current costs:

Wailoa:	\$5.15 per 1000 gallons
MPU:	\$6.04 per 1000 gallons
Mosco:	\$52.56 per month

Note that these rates do not take into account the expected decrease in revenues resulting from a cutback in usage as a result of a rate hike. Also, these rates do not take into account the potential for energy cost increases or capital expenses which may be incurred as a result of equipment or system breakdown. These two issues will also need to be addressed in some manner acceptable to the PUC to ensure uninterrupted operation.

In addition, the Water Co's assume the PUC will continue with its conservation rate strategy as was implemented in MPU at the last rate adjustment."

Obviously any increase in expenses is difficult for a ratepayer. We do not know to what extent the increases will impact the public, although some reduction in usage seems probable.

3. Amounts advanced by MPL to the utilities: The attached schedule ("Cash Provided To Operating Entity - Twenty-Four Month Period") reflects these expenditures. We note that historical expenditures have limited relevance in determining what rates are necessary for self-sufficiency, in light of rapidly increasing energy and health insurance costs and the likelihood of a decrease in usage resulting from the anticipated rate increases.
4. A description of the assets and the terms of conveyance: The attached list of assets reflects this information. There are currently no formal agreements for the use of assets that are either in joint use or held by MPL. It will be a requirement of transfer that these assets either be leased or purchased (depending on their nature) to ensure proper operation of the utilities. Estimates of the cost of these leases or transfers are contained in the schedule entitled and the amounts should be made a part of overall future cost projections in connection with the temporary rate increase.
5. An Explanation of why Mosco must be transitioned to prevent termination of service: Mosco has been the beneficiary of reduced expenses associated with consolidated operation of the three utilities. Should Mosco be required to stand on its own, those efficiencies will cease and Mosco will no longer be a viable operation under its current rate structure. The attached schedule ("Mosco Inc Budget Projections") reflects what Mosco's operating expenses and revenue requirements will be if it is an independent entity and cannot recognize shared

costs. This calculation includes 2.5 FTEs and independent licensing, equipment and insurance costs.

Information regarding the unregulated public utilities is not included as the companies have no other purpose than to serve the regulated companies. They are therefore not in need of rate adjustments.

We would like to caution that there are two non-PUC issues that have an impact on the viability of continued operation, even with an appropriate rate increase. As a result of a recent Supreme Court decision, MPU's allocation of water from Well 17 by the Commission on Water Resource Management has been vacated. In addition, MPU's agreement with Department of Agriculture to transmit water through the MIS to Mahana has expired and the DOA has taken the position that a new agreement cannot be entered into without the completion of an Environmental Assessment.

MPU does not have the resources to engage in the CWRM allocation proceeding nor does it have the resources to complete an EA for use of the MIS. The proposed rates set forth above will not create the necessary resources to do so. At present these two issues remain outstanding and MPU has not been required to actively pursue either issue. Should either the allocation proceeding be re-convened or the DOA require MPU to proceed with the development of an EA, MPU will not be able to meet those demands and will be forced to cease operation regardless of any rate increase.

We hope that this information is sufficient to answer your questions. Please let us know if we can be of further assistance.

A handwritten signature in black ink, appearing to read 'Peter A. Nicholas', with a stylized, cursive script.

Peter A. Nicholas
Director

c.c. Honorable Linda Lingle, Governor, State of Hawaii
Catherine Awakuni, Executive Director
Division of Consumer Advocacy, DCCA

Molokai Properties Limited
Waiola O Molokai
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Water	91,954			
Meter Charge	29,609			
Tap-in	218			
Hydrant	63			
Reconnection	109			
	<u>121,954</u>			
Cost of Sales	125,275	V	125,275	
	<u>(3,321)</u>			
Salaries & Benefits	60,204	V	60,204	
Professional Services	12,341	F		12,341
Lease Rent	-	F		-
Electricity	12,359	V	12,359	
Clean & Refuse	108	F		108
Repair & Maint	11,375	V	11,375	
Equipment Rental	92	F		92
Material & Supplies	5,808	V	5,808	
Fuel	5,093	V	5,093	
Uniforms	-	F		-
Travel	1,939	F		1,939
Real Property Tax	-	F		-
Public Service Tax	6,574	V	6,574	
License & Fees	28	F		28
Administrative	29,470	F		29,470
	<u>145,391</u>		<u>226,688</u>	<u>43,978</u>
			84%	16%
Operating Loss	(148,712)			-

Gallons Sold	KGallons		Per Kgal			
			Revenues	Variable	Fixed	Total
Outsider	47,488	88%				
Internal (Lodge/BV/Office)	6,201	12%				
	<u>53,689</u>	<u>100%</u>	-	4.22	0.82	5.04

Eliminate Internal Use (Lodge/BV/Office) would increase or reduce cost per Kgal?

Cost Savings	26,181
Total Cost	270,665
Cost w/o Internal Use	244,485
Cost per Kgal w/o Internal Use	5.15
Increase in Cost per Kgal	0.11

Conclusion

Cost per Kgal increased by \$0.14 per Kgal when removing the Internal Use. This increase indicates that loosing Internal sales placed more burden on the Outside sales to absorb the fixed cost.

Molokai Properties Limited
Molokai Public Utilities, Inc.
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Water	577,637			
Meter	52,169			
Availability	-			
Tap-in	491			
Miscellaneous	25,462			
	<u>655,760</u>			
Cost of Sales	218,288	V	218,288	
	<u>437,472</u>			
Salaries & Benefits	74,279	V	74,279	
Professional Services	16,843	F		16,843
Lease Rent	129,515	F		129,515
Electricity	201,812	V	201,812	
Clean & Refuse	172	F		172
Repair & Maint	78,545	V	78,545	
Equipment Rental	145	F		145
Material & Supplies	4,049	V	4,049	
Fuel	354,670	V	354,670	
Uniforms	-	F		-
Travel	457	F		457
Real Property Tax	920	F		920
Public Service Tax	35,837	V	35,837	
License & Fees	45	F		45
Administrative	19,364	F		19,364
	<u>916,653</u>		<u>967,481</u>	<u>167,460</u>
			85%	15%
Operating Loss	(479,181)			-

Gallons Sold	Gallons		Per Kgal			
			Revenues	Variable	Fixed	Total
Outsider	139,401	70%				
Internal (Golf Course)	60,747	30%				
	<u>200,148</u>	<u>100%</u>	-	4.83	0.84	5.67

Eliminate Internal Use (Golf Course) would increase or reduce cost per Kgal?

Cost Savings	293,642
Total Cost	1,134,941

Cost w/o Golf Course	841,299
Cost per Kgal w/o Golf Course	6.04
Increase in Cost per Kgal	0.36

Conclusion

Cost per Kgal increased by \$0.42 per Kgal when removing the Golf Course. This increase indicates that losing Internal sales placed more burden on the Outside sales to absorb the fixed cost.

Molokai Properties Limited
Mosco Inc
Service Rate Analysis

Projection using FY 2008 (YTD May 31, 2008) as base

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed
Water Operating Results				
Revenues				
Sewer	185,808			
--	-			
--	-			
--	-			
Miscellaneous	-			
	<u>185,808</u>			
Cost of Sales	-	V	-	
	<u>185,808</u>			
Salaries & Benefits	34,990	V	34,990	
Professional Services	-	F		-
Lease Rent	-	F		-
Electricity	38,508	V	38,508	
Clean & Refuse	70	F		70
Repair & Maint	4,053	V	4,053	
Equipment Rental	59	F		59
Material & Supplies	18	V	18	
Fuel	3,296	V	3,296	
Uniforms	-	F		-
Travel	30	F		30
Real Property Tax	-	F		-
Public Service Tax	9,124	V	9,124	
License & Fees	18	F		18
Administrative	7,732	F		7,732
	<u>97,897</u>		<u>89,988</u>	<u>7,909</u>
Cost %			92%	8%
Operating Gain (Loss)	87,911			-
	<u>Billings</u>			
Outsider	169,884	100%		
Internal (Golf Course)	484	0%		
	<u>170,368</u>	<u>100%</u>		

Molokai Properties Limited
Mosco Inc
Budget Projection

FY 2009

	Amount	Cost Type V (variable) F (fixed)	Variable	Fixed	Monthly
Water Operating Results					
Revenues					
Sewer	221,383				18,449
--	-				-
--	-				-
--	-				-
Miscellaneous	-				-
	<u>221,383</u>				<u>18,449</u>
Cost of Sales	-	V	-		-
	<u>221,383</u>				<u>18,449</u>
Salaries & Benefits	150,770	V	150,770		12,564
Professional Services	100	F		100	8
Office Lease Rent	100	F		100	8
Electricity	42,000	V	42,000		3,500
Clean & Refuse	1,080	F		1,080	90
Repair & Maint	4,000	V	4,000		333
Equipment Rental	769	F		769	64
Material & Supplies	120	V	120		10
Fuel	520	V	520		43
Uniforms	-	F		-	-
Travel	-	F		-	-
Real Property Tax	-	F		-	-
Public Service Tax	8,861	V	8,861		738
License & Fees	200	F		200	17
Administrative	12,842	F		12,842	1,070
	<u>221,361</u>		<u>206,271</u>	<u>15,091</u>	<u>18,447</u>
Cost %			93%	7%	-
Operating Loss	21			-	2

Based on these projections Rate should be \$52.56 per customer per month.

Months	12	
Customers	351	
Rate	<u>\$52.56</u>	
New projected revenues	<u>\$221,383</u>	To break even

Notes:

Electricity Current average bill \$3500/month
Cleaning & Refuse \$25 + \$65/mo
Repairs & Maintenance - rounded up FY2008
Materials & supplies - office supplies
Fuel 52 Weeks X 2.0 gallons X \$5.00/gallon. Estimated 25 miles per week.
PUC Tax tax 4.0025% of Revenues
Admin

From FY2008	Monthly	
Admin fees	95	Controller & accountant charges/month
Office	15	
Telephone	52	Install & connect new phone line-Mkk
Cellphone	75	one phone
Insurance	<u>833</u>	From FY2008-potentially higher for just one company
	<u>1,070</u>	

Molokai Properties Limited
PUC Companies - Waiola O' Molokai, Molokai Public Utilities and Mosco
Cash Provided to Operating Entity - Twenty-four Month Period
June 30, 2006 to May 31, 2008

	Waiola	Molokai Public Utility			Mosco
		Operating	Capital	Total	
Jun 2006	(10,454)	(21,448)	-	(21,448)	8,126
Jul	(11,581)	(23,914)	-	(23,914)	8,086
Aug	(10,519)	(18,746)	-	(18,746)	9,204
Sep	(14,056)	(15,293)	-	(15,293)	9,466
Oct	(7,180)	(13,894)	-	(13,894)	9,086
Nov	(11,376)	(47,312)	-	(47,312)	8,488
Dec	(16,538)	(38,100)	-	(38,100)	6,979
Jan 2007	(8,390)	(29,483)	-	(29,483)	8,728
Feb	(8,782)	(16,563)	-	(16,563)	8,268
Mar	(14,494)	(67,904)	(46,875)	(114,779)	1,175
Apr	(10,934)	(19,002)	-	(19,002)	8,712
May	(5,588)	(38,633)	-	(38,633)	10,093
Jun	(28,267)	(141,141)	(16,353)	(157,494)	9,407
Jul	(18,819)	(47,080)	-	(47,080)	8,348
Aug	(11,891)	(30,073)	-	(30,073)	8,653
Sep	(18,687)	(28,323)	(46,520)	(74,843)	9,185
Oct	(20,154)	(65,201)	18,198	(47,003)	7,984
Nov	(8,165)	(21,733)	(24,335)	(46,068)	8,808
Dec	(9,667)	(51,163)	-	(51,163)	8,592
Jan 2008	(18,439)	(51,261)	-	(51,261)	7,038
Feb	(7,991)	(40,004)	(114)	(40,118)	7,933
Mar	(12,046)	(45,653)	-	(45,653)	522
Apr	(6,653)	(46,617)	-	(46,617)	8,439
May	(3,507)	(30,332)	-	(30,332)	5,083
Total for 24 Month Period	(294,178)	(948,873)	(115,999)	(1,064,872)	186,403
Monthly Average	(12,257)	(39,536)	(4,833)	(44,370)	7,766

Wai'Ola Molokai

Net Book Value Report 4/30/2008

	Sys No	Description	Basis	Net Book Value
G/L Asset Acct No = 000-176-00				
Water Systems				
Billing	000018	"Cubic" Utility Billing System	8,577.50	0.00
Old Readers	000007	Utility Data System	11,597.57	1,031.76
Out of Service	000042	Kalae Kualapuu Ag line	8,776.16	4,790.31
Pipe	000026	Maunaloa Water Pipe & Valve	1,428.13	0.00
Pipe	000051	Waiola Pipeline	6,414.35	152.70
Pipe	000052	Kipu Pipeline	1,645.82	39.17
Pipe	000054	4" from Kualapuu Reservoir (0.23 MG) to Kipu (emergency b)	141,907.86	105,484.82
Reservoir	000047	Maunaloa Reservoir (2.2 MG)	588,346.97	206,747.25
Reservoir	000044	Kualapuu Reservoir (0.23 MG) Upgrade	219,943.75	141,208.78
Water Meters	000050	Water Meters	61,158.39	15,487.37
Water System	000017	Maunaloa Village Water System	2,091,948.30	1,037,974.61
Water System	000038	Water Transmission System-Well 17 to Kualapuu	110,800.00	0.00
Water System	000039	Kipu System Improvements	33,751.21	122.06
Water System	000040	Kualapuu Booster Automation	6,745.00	0.00
Water System	000043	Kualapuu County Water Tie	70,628.99	0.00
Water System	000048	Maunaloa 12" Water Main	247,635.97	137,850.68
Total Assets			\$3,611,305.97	\$1,650,889.51

Molokai Public Utilities, Inc.

Net Book Value Report

4/30/2008

	Sys No	Description	Basis	Net Book Value
Equipment				
Pump Station	000123	Controls for Mahana Pumps	13,924.60	12,067.97
Puukole Tanks	000110	Solar System Puukole Tanks	29,120.70	12,826.96
Tools	000103	Maintenance Equipment & Tools	7285.08	1074.81
Water Meters	000114	14 Water Meters M35 B81 3/4"	2,621.46	2,097.18
Well 17	000112	Caterpillar Engine Model 3412E	87,221.32	20,351.67
			<u>140,173.16</u>	<u>48,418.59</u>

Water Systems				
Pipe	000115	Emergency Bypass Line for Moana Makani	65,000.00	15,166.67
Pipe	000108	HDPE Pipe for Papahaku Ranchlands (ITC) High p	67,802.25	45,813.66
Pipe	000120	Papahaku Line Bypass	63,700.54	55,723.76
Pump Station	000126	Mahana Pump replacement	14,100.00	13,316.67
Rate Case 2004	000117	MPU Rate Case	125,416.02	29,263.76
Water Meters	000118	Meter Replacement	67,072.97	41,361.66
Water System	000106	System Acquisition Cost 12/2001	4,931,896.00	0.00
Water System	000124	DOH Compliance-Puunana Treatment Plant Upgra	1,012,378.49	881,612.93
Well 17	000128	Well 17 Repairs	127,003.32	99,842.21
			<u>6,474,369.59</u>	<u>1,182,101.32</u>

Total Assets

6,614,542.75	1,230,519.91
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MOSCO, INC.

Net Book Value Report 4/30/2008

Description	Basis	Net Book Value
Equipment		
Sutorbilt 4M Blower Package (USA I	3,731.00	621.84
	<u>3,731.00</u>	<u>621.84</u>
Water Systems		
Sewer Treatment System Acquisition Cost 12/2001	752,501.00	291,633.08
Sewer Treatment Sewer Compliance-DOH	183,510.10	124,379.06
Sewer Treatment Mosco Rate Case	51,984.00	12,129.60
Sewer Treatment WWTP Backup Genset	9,999.95	8,083.29
	<u>997,995.05</u>	<u>436,225.03</u>
Total Assets	<u><u>1,001,726.05</u></u>	<u><u>436,846.87</u></u>

MOLOKAI RANCH, LTD.

Assets Benefiting Water Companies 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
MPU/Wai	Equipment	Maintenance Equipment & Tools	11450.53	347.21
All	Equipment	Backhoe from All-Line	37,806.48	9,451.62
All	Vehicle	2004 Ford Ranger for Water Depts	20,083.49	2,343.07
All	Vehicle	2000 Ford Ranger	9,400.00	7,363.34
			<u>78,740.50</u>	<u>19,505.24</u>

MOLOKAI RANCH, LTD.

Water Assets Benefiting Molokai Public Utilities 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
MPU	Equipment	Maintnace Equipment & Tools	2655.81	815.52
MPU	Reservoir	Fence at Puunana around reservoir	32,540.36	28,020.86
MPU	Reservoir	Fence at Puu Okolii around reservoir	16,871.89	14,528.57
MPU	Water Treatment	Kaluakoi Water Meters	49,683.01	0.00
MPU	Water Treatment	Puunana Water Treatment Plant Upgrades	22,727.13	14,962.01
MPU	Water Treatment	Well17 Roof	57,598.42	1,919.97
			<u>182,076.62</u>	<u>60,246.93</u>

MOLOKAI RANCH, LTD.

Water Assets Benefiting WaiOla O Molokai 4/30/2008

Primary User	Category	Description	Basis	Net Book Value
Wai	Equipment	Maintenance Equipment & Tools	3778.82	0
Wai	Pipe	Kawela Intake Pipe	3,900.00	1,722.50
Wai	Pipe	4" Pipe-Lualohe & Kalii	21,040.92	3,717.07
Wai	Pipe	Main Line-Kawela to Kawela Intake	915,135.60	509,425.53
Wai	Pipe	8" water line Mountain to Puunana	3,096,383.09	2,167,468.17
Wai	Pipe	Hanalihoiho Line	66,296.00	48,175.10
Wai	Reservoir	Kawela Reservoir (5MG) Overflow	3,143.00	209.54
Wai	Reservoir	Dole Reservoir (4 MG) to Redwood Tank	99,530.43	51,424.07
Wai	Reservoir	30 Million Gallon Reservoir	1,839,190.22	1,057,621.48
Wai	Reservoir	Maunaloa Reservoir (2.2 MG) Repair	23,071.32	21,378.28
Wai	Tank	Rehab Structure @ Redwood Tank	12,253.33	3,573.92
Wai	Tank	Replace Kipu Tanks	165,997.79	125,051.69
Wai	Tank	3 Water Storage Tank-Hale	39,172.68	0.45
Wai	Tank	ML219-Water Tank	309,159.00	213,319.71
Wai	Water System	Maunaloa Water Main	72,493.00	37,454.72
Wai	Water System	WaiOla Water Meters	41,687.94	23,988.16
Wai	Water System	Maunaloa Water System	96,304.77	53,609.76
Wai	Water System	Puunana Treatment Plant Upgrade	874,485.06	436,598.40
Wai	Water System	Mountain Water System	169,278.31	94,231.62
Wai	Water System	Kamiloloa Well	1,352,795.00	937,937.87
			<u>9,205,076.28</u>	<u>5,786,908.04</u>
			<u>9,460,168.14</u>	<u>5,866,486.61</u>